

# Internal Revenue Service

## Computer Audit Specialist –

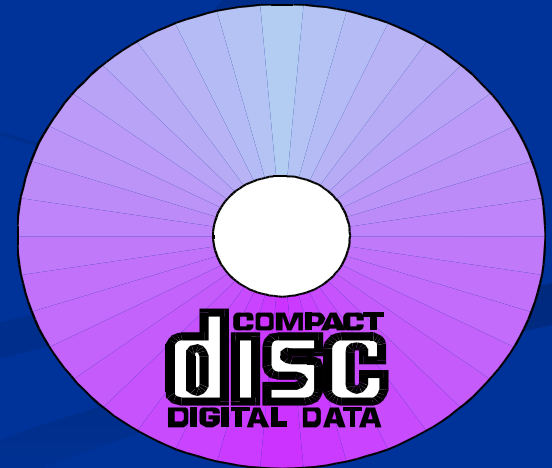
### Presentation 9/24/2007

#### Background of the Computer Audit Specialist

The Computer Audit Specialist (CAS) is a Revenue Agent who has received specialized training in computer programming, systems analysis, and statistical sampling procedures. A CAS is used to optimize the use of computers and statistical sampling techniques in tax examinations.

# Objectives of this presentation are to cover:

- Role of the Computer Audit Specialist.
  - CAS Activity/Various Task performed
- Provisions of RR 71-20 and RP 98-25.
- Retention and Recovery of Data
- Problems / Barriers  
encountered in securing  
and reconciling  
machine-sensible data



# Communication between CAS and Auditor

- A CAS will assist the auditor in developing the audit trail from tax return to source documents and in assuring that the computer records agree with the workpapers used to prepare the return.

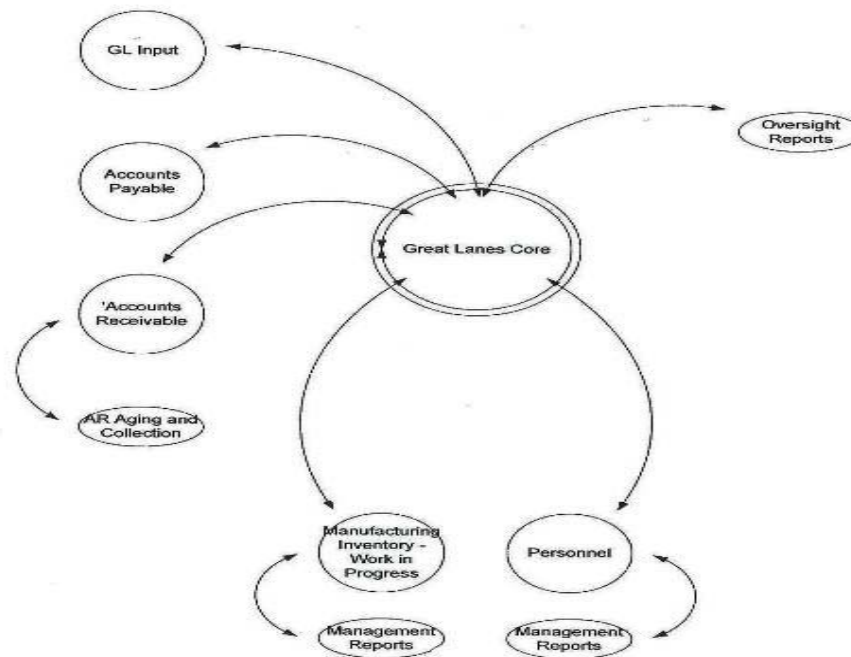


# 4 Types of CAS Activity

- ◆ Systems Analysis
- ◆ Record Evaluations
- ◆ Computer Applications
- ◆ Statistical Sampling



# Systems Analysis - Sample



# ***Areas of assistance include:***

## **RECORD INTEGRITY**

- ◆ **Audit Trail Development**
- ◆ **Data Conversion**
- ◆ **Record Retention**
- ◆ **Tax Reconciliation**

## **DATA ANALYSIS**

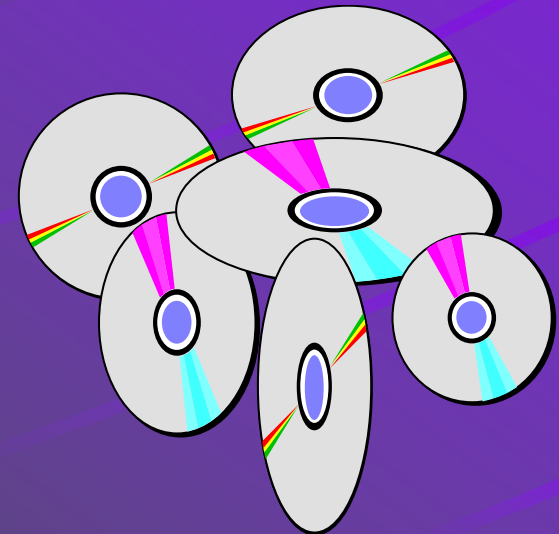
- ◆ **Record Presentations**
- ◆ **Statistical Sampling**



# RECORD INTEGRITY. .

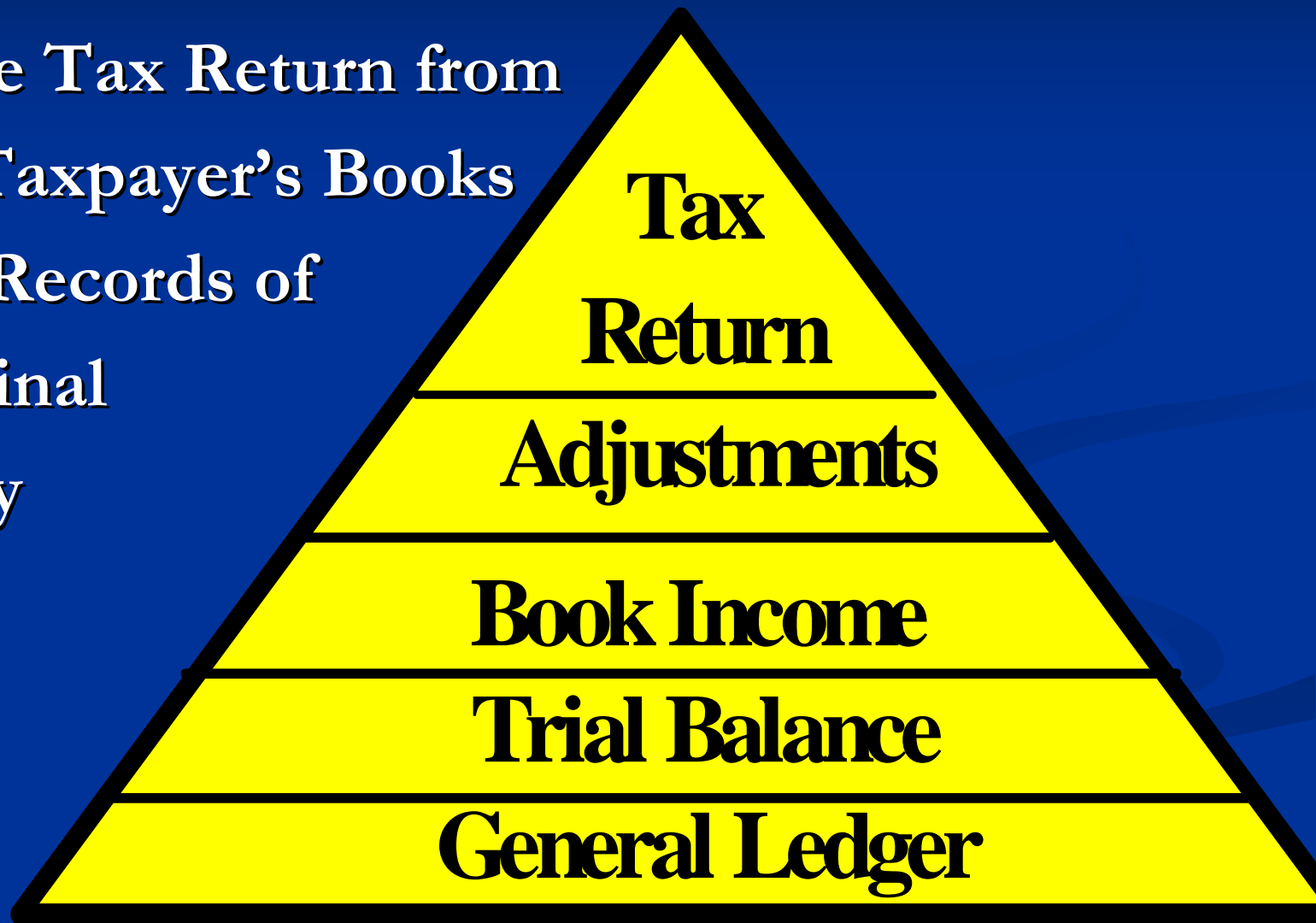
- ◆ Record Integrity is both obtaining the taxpayer's data and ensuring that the records received are accurate and complete.

For example: GL Detail Transaction File,  
debits = credits



# *AUDIT TRAIL DEVELOPMENT*

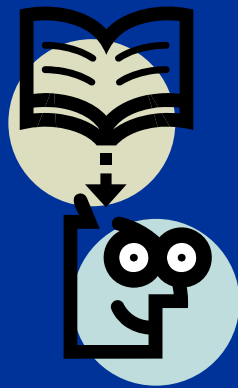
- The Flow of Information to the Tax Return from the Taxpayer's Books and Records of Original Entry





# *AUDIT TRAIL DEVELOPMENT*

## From Books to Source Documents



**General Ledger**

**Sub Ledgers**

**Source  
Documents**

# *DATA CONVERSION*

The translation of taxpayer records into a format usable by auditor.

Tape (3480, 3490)

CD , DVD

mainframe

LAN

PC

*From*



# TO

Access database,  
spreadsheet  
and/or  
printed report.

**Query**

| Query | QueryName | SumOfAmount    |
|-------|-----------|----------------|
| 1001  | CUST 1001 | \$1,559,261.70 |
| 1003  | CUST 1003 | \$135,526.21   |
| 1004  |           |                |
| 1005  |           |                |
| 1007  |           |                |
| 1008  |           |                |
| 1012  |           |                |
| 1014  |           |                |

**Microsoft Excel - d:\2000a.chap1**

| Line | Code | Line Item Description | Pre Tax Yr 1  | Tax Year 1    | Tax Year 2    | Tax Year 3    |
|------|------|-----------------------|---------------|---------------|---------------|---------------|
| 1a   | xx   | GROSS RECEIPTS        | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 1b   | xx   | RETURNS ALLOW         | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 1c   | xx   | BALANCE               | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 2    | xx   | -COST OF GOODS SOLD   | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 3    | xx   | GROSS PROFIT          | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 4    | xx   | DIVIDENDS             | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 5    | xx   | GROSS LOSS            | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 6    | xx   | ROYALTIES             | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 7    | xx   | CAPITAL GAINS         | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 8    | xx   | FORM 497              | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 9    | xx   | OTHER INCOME          | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 10   | xx   | TOTAL INCOME          | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 11   | xx   |                       | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 12   | xx   | OFFICERS' COMP        | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 13a  | xx   | SALARIES/WRACS        | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 13b  | xx   | JOBS CREDIT           | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 13c  | xx   | BALANCE               | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 14   | xx   | REPAIRS               | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 15   | xx   | BAD DEBTS             | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 16   | xx   | RENTS                 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 17   | xx   | TAXES                 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 18   | xx   | INTEREST              | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 19   | xx   | CONTRIBUTIONS         | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |
| 20   | xx   | DEPRECIATION          | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 | \$ 100,000.00 |

**XYZ Company**

**General Ledger Detail Queries**

**GLDetail 1998**

- GL Detail Search by GL Account (xxx-xxx)
- GL Detail Search by Account (xxx)
- GL Detail Search by Sub Account (xxx)

**GLDetail 1999**

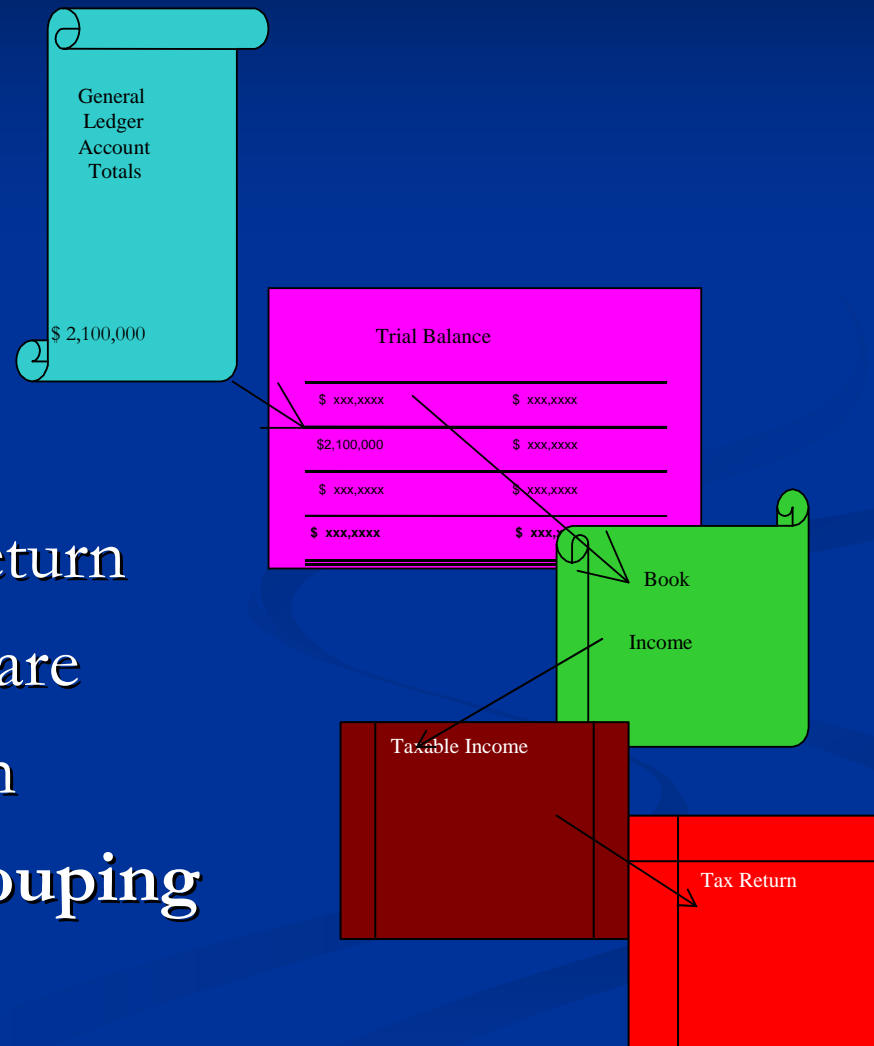
- GL Detail Search by GL Account (xxx-xxx)
- GL Detail Search by Account (xxx)
- GL Detail Search by Sub Account (xxx)

**GLDetail Excel**

# Tax Reconciliation

Verify that Tax Return  
To Book Income is  
Accurate

- Schedule M-1 (M-3)
  - Summarizes Recon  
from Book to Tax Return
- Tax Preparation Software  
used to assist in recon  
i.e. **Bridge/Acct Grouping  
File**



# Various Type of Tax Preparation Software Used

- Fast Tax (InSource)
- Corp Tax
- ProSystem
- Vertex

Each Tax Prep Software will provide the Bridge between book and tax.

A good website to review various tax preparation software being used : [www.taxsites.com](http://www.taxsites.com)

# Record-keeping requirements



- **Rev. Rul. 71-20**
  - IRC 6001 requires record retention
  - RR 71-20 Defines Machine Sensible Records
- **Rev. Proc. 98-25**
  - Outlines the requirements for Retaining Records

# Record Retention

- **Retention Period:**
  - **As long as their content may be material.**
    - **At Minimum - Period of Limitations**
- **Information Required**
  - **Sufficient Information to:**
    - **Support and Verify Entries**
    - **Reconcile to the Books and Tax Return**
    - **Provide a proper Audit Trial**



# Record Retention

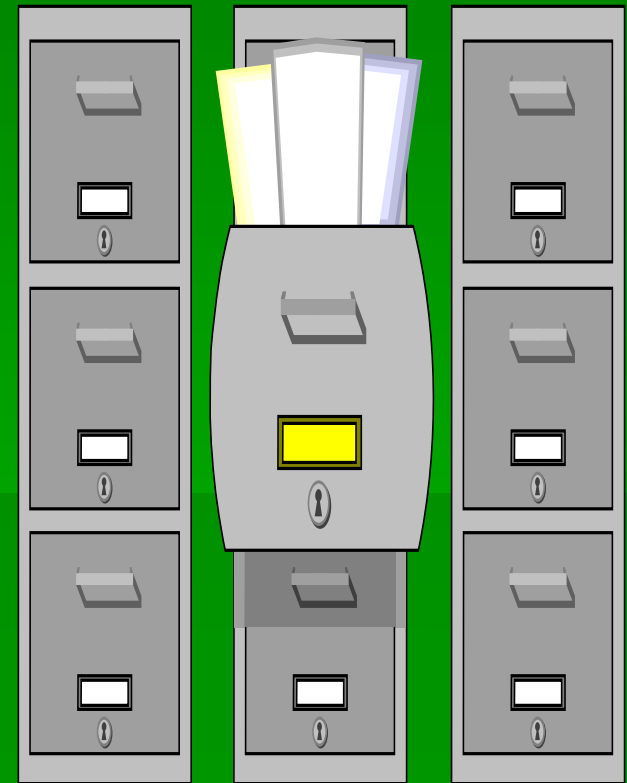


- **Information Required cont.**
  - **Record detail must allow identification of source documents**
  - **Records must be made available and capable of being processed**



# Documentation Required

- Taxpayer must maintain documentation of:
  - The process of creating, modifying and maintaining the records.
  - Evidence of integrity of the records including internal controls.
  - All necessary information to process the retained files such as record layouts, field definitions, periodic checks etc.



# Other Memorable Provisions



## ■ Record Retention Limitation Agreement.

- Requested by Taxpayer to limit which records must be retained
- Taxpayer remains subject to all provisions not waived or modified

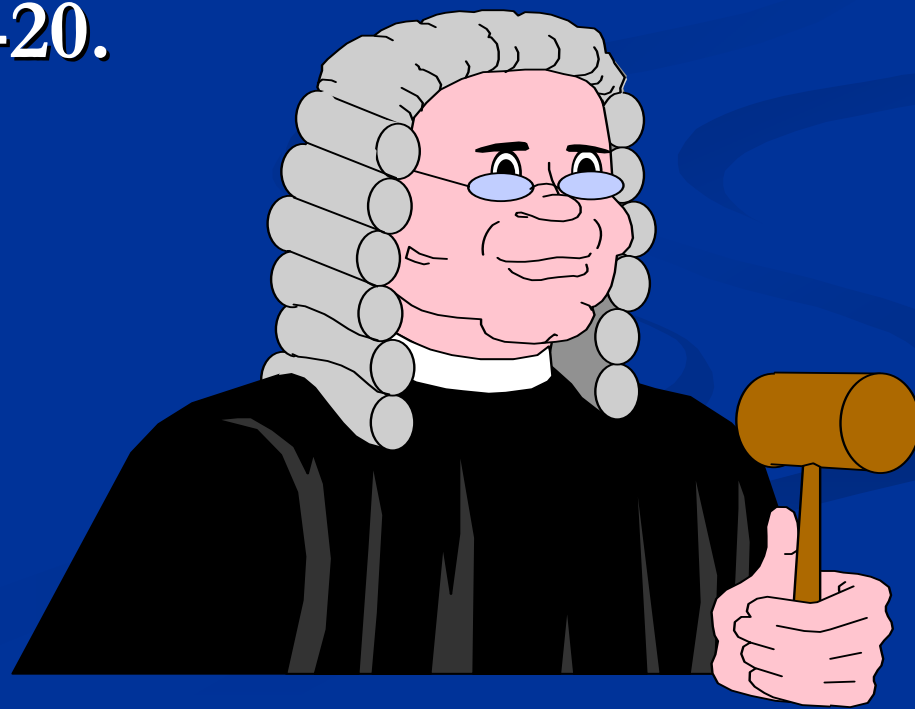
## ■ Record Evaluation and Testing

- IRS can review and test records at any time.
- Evaluation and Testing is not an examination.

## ■ Hardcopy records must be maintained (Source Document).

# Penalty Provisions

Rev. Proc. 98-25 allows imposition of the civil penalty under IRC 6662 and criminal penalty under IRC 7203 for failure to maintain machine sensible tax records required by RR 71-20.



# Problems Encountered with Taxpayer's Retention Practices.

- Inability to load historic financial data on Taxpayer's current system.
- Inability to load historic financial data AND current data on the system.
- Taxpayer fails to maintain/keep proper software version/documentation that performed backup process.
- DBMS image backup vs. Sequential file

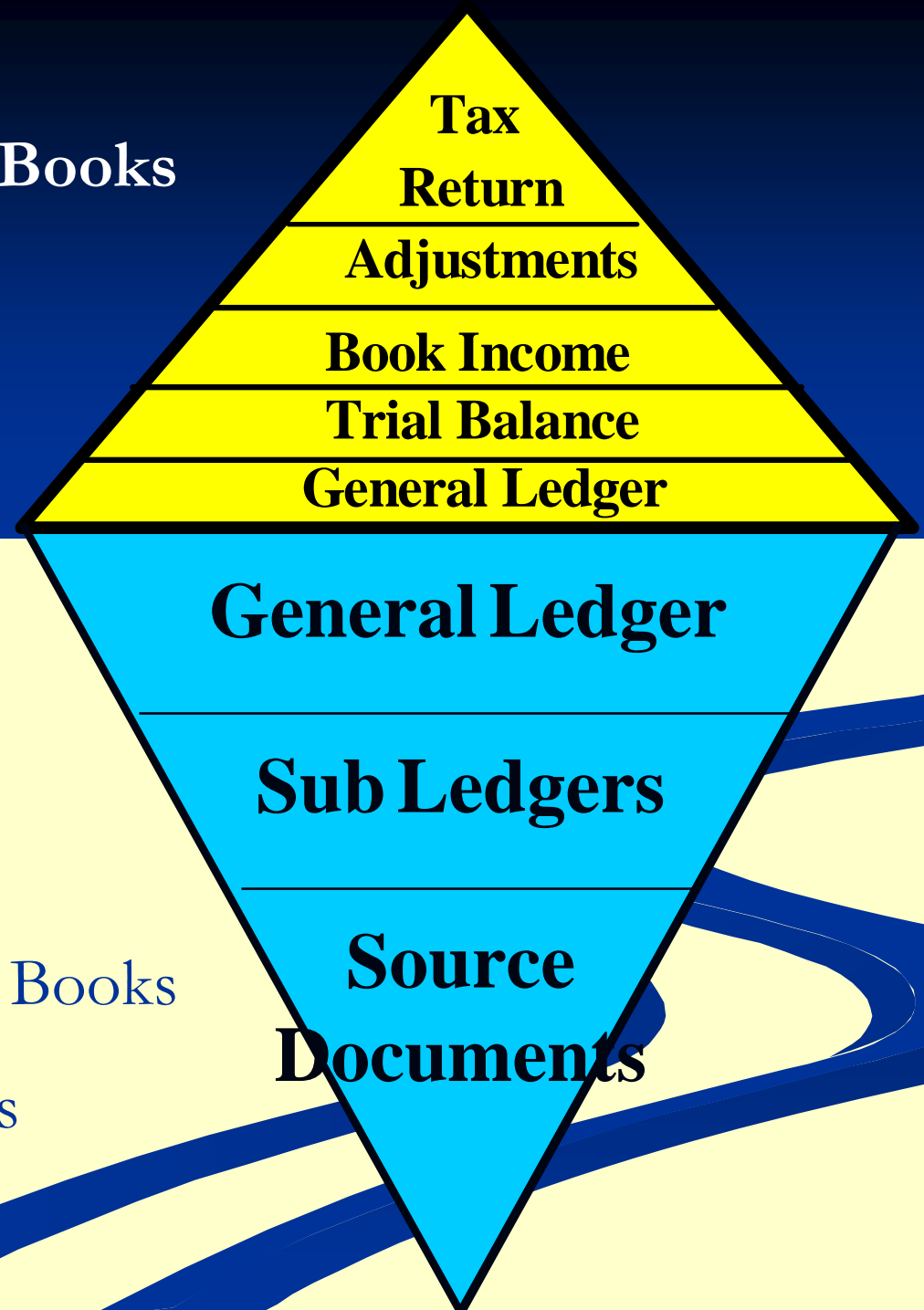
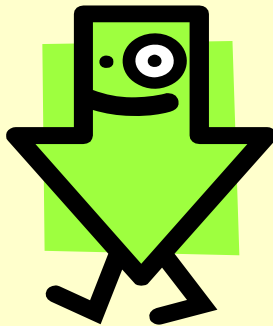
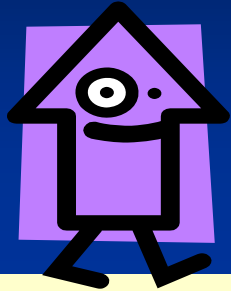


# Problems / Barriers in Securing and/or Processing Data

- ◆ Determining flow of data through taxpayer system
- ◆ Different computer systems - Decentralized
- ◆ Determining file types and characteristics – ASCII, Print
- ◆ Different account numbering systems – Consolidation Software
- ◆ Missing data, TP cannot retrieve
- ◆ Tp Personnel Change
- ◆ Company Sold/Acquired



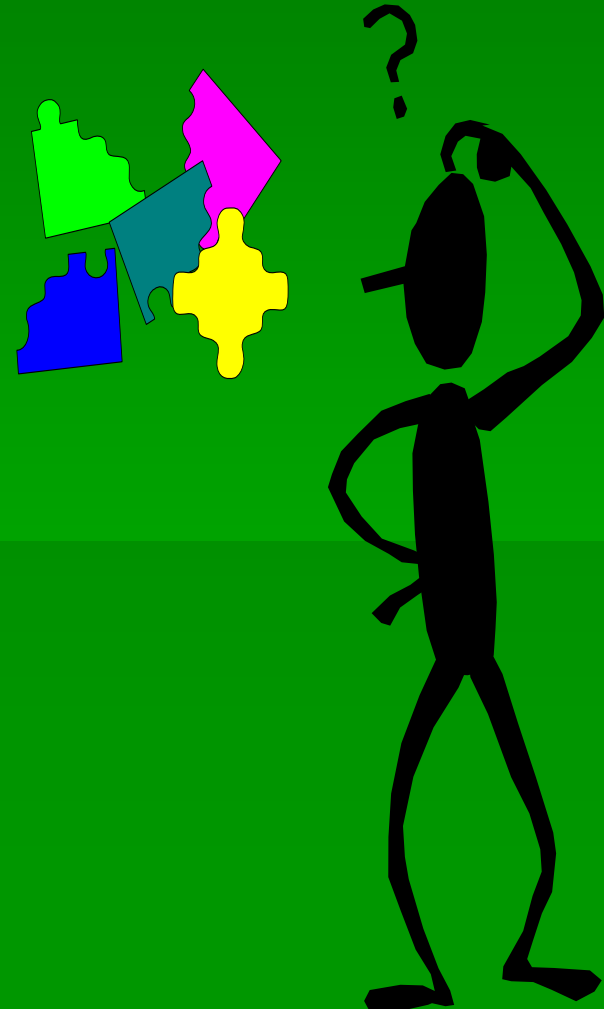
# Problems Reconciling Books to Return



Inability to Reconcile from Books  
to Source Documents

# Problems Reconciling Books to Return

- Determine which GL accounts reconcile to line items on return.
- Which Companies are included?
- Any Acquisitions and Dispositions?
- Any adjustments after closing GL accounts?



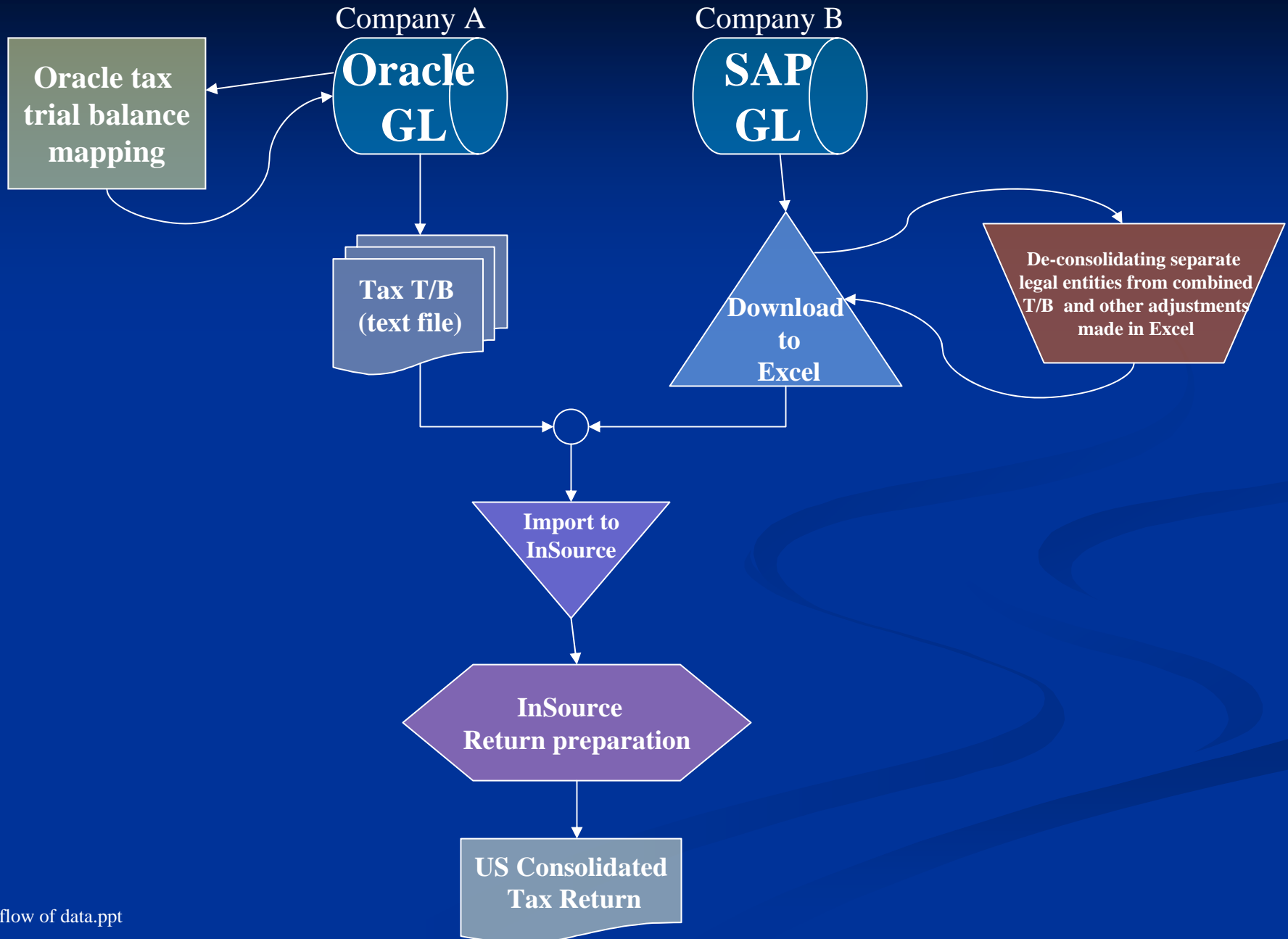


# Problems in Reconciling Taxpayer Records

- Inability to reconcile computer files to trial balance
  - Incomplete or missing records
  - Determining which fields are correct
  - File cutoff
  - New Subsidiaries have partial year



# FLOW OF DATA: G/L TO TAX RETURN



# Summary- In this Session we covered:

- Role of the Computer Audit Specialist.
- Provisions of RR 71-20 and RP 98-25.
- Retention and Recovery of Data
- Problems encountered in securing computer data





CAS needs to be involved  
early in the examination

CAS will usually be involved in the  
planning process to determine what is  
available from the taxpayer's system.

# ANY QUESTIONS

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